

MARKSCHEME

May 2002

ECONOMICS

Higher Level

Paper 3

SECTION A

Question 1: Bananas – The Facts

	Partial Mark	Maximum Mark
(a) With reference to Item 1, briefly describe the main changes in the pattern of banana exports between 1988 and 1997.		
• for recognising the very large increase in world exports of bananas (approx 70%)	1	
• for noting that the bulk of this increase occurred in Latin America	1	2
(b) Use Item 2 to help you describe the market structure of the banana industry.		
• for stating that the industry is oligopolistic	1	
• for briefly illustrating this from the data	1	
• for noting dominance by Dole and Chiquita	1	2
<i>No points awarded if no mention of oligopoly.</i>		
(c) With reference to Item 3, explain why “more than 90 % of the price paid by consumers stays in the North and never reaches the producer”.		
• for an answer to the question which only describes the “banana split”	2	
• for a broader answer in terms of the power of MNCs to control production, distribution, price, <i>etc.</i>	2	
• for noting that most value added occurs after the production stage	2	4
(d) With reference to Item 4,		
(i) explain what is meant by the sentence, “Bananas from the plantations of Central and South America are ‘cheaper’ than anywhere else – largely because the costs are externalised”;		
• for simply paraphrasing the passage in a relevant manner	1	
• for explaining that social cost equals internal costs plus external costs	2	
• for relating the above to the “cheapness” of Latin American bananas (producers do not bear the full social cost)	3	4
<i>Reward a critical approach to the source and the question.</i>		
(ii) how might the costs of banana production be internalised?		
• for an accurate explanation of the meaning of internalisation of the costs of banana production	2	

- for a full explanation of the use of taxation on banana producers, probably involving the use of a diagram
- for examining the use of minimum wage legislation
- for mention of restrictions on land use/sustainable agricultural development

5

3

3

6

Reward other plausible suggestions.

- (e) **Using the data provided and your own knowledge of economics, discuss the problems faced by economies dependent on the export of agricultural products.**

[7 marks]

Issues for discussion might include

- instability of prices
- importance of income and price elasticities
- terms of trade
- control and dominance of the market by MNCs
- dependence on MDC trade cycles
- implications of debt servicing obligations
- welfare implications
- impact on ability to import essential goods
- use of subsidy/protectionism in MDCs
- MDC agriculture generally is more capital intensive and therefore efficient

Level 0	No valid discussion.	0
Level 1	Very few relevant issues recognised with little discussion or basic understanding.	1-2
Level 2	A few issues recognised with some attempt at discussion or just one issue well-developed.	3-4
Level 3	Issues well developed with some reference to the data and with sensible evaluation.	5-7

Question 2: South American Trading Block Under Pressure

Partial Mark	Maximum Mark
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(a) Explain the meaning of the following terms which are in bold in the text:

(i) trading block (paragraph 1);

Acceptable definition of trading block

- a group of countries that try to get the benefits of free trade by forming a free trade area or a customs union with other countries with similar interests
- vague notion
- more accurate definition

1	
2	2

(ii) economic convergence (paragraph 3).

Acceptable definition of economic convergence

- the attainment of similar levels of inflation, growth, budget deficits as a % of GDP, balance of payments *etc.*
- vague notion
- more accurate definition

1	
2	2

Reward candidates who make constructive use of the information given.

(b) Item 1 suggests that Mercosur was near to collapse. Briefly explain *two* of the factors that led to this situation.

Possible reasons

- investment incentives
- subsidies
- devaluation
- import quotas
- dumping
- recession
- capital flows
- unfair trading

*Allow [1 mark] per point where candidate just states two factors.
Allow up to [2 marks] per point for statement and brief elaboration.*

2	
2	3

N.B. *Do not award extra marks in cases where more than two factors are provided.*

		Partial Mark	Maximum Mark
(c)	(i) Draw a diagram to show the effects of the tariff on cars imported from outside the trading block (paragraph 4).		
	<ul style="list-style-type: none"> • accurate axes and lines 	1	
	<ul style="list-style-type: none"> • tariff shifts supply curves upwards from S_{world} to $S_{world} + \text{tariff}$ 	2	3
	<i>Maximum of two marks if domestic and world supply curves are not distinguished.</i>		
	(ii) Explain briefly what your diagram shows will happen.		
	<i>Give [1 mark] each for candidates who make the following points</i>		
	<ul style="list-style-type: none"> • Mercosur's quantity demanded for cars will fall. 	1	
	<ul style="list-style-type: none"> • Mercosur's production of cars will increase. 	1	
	<ul style="list-style-type: none"> • Imports will fall. 	1	3
	<ul style="list-style-type: none"> • Deadweight or welfare lost. 		
(d)	With reference to the graphs in Item 2, assess some of the problems that Mercosur members may face in achieving the convergence targets mentioned in paragraph 3.		
	This question can be answered by referring to aspects of fiscal and monetary policy, such as harmonisation of tax regimes and interest rates.		
	Inflation	1	
	For noting considerable differences in rates	2	
	For noting costs of policies to bring inflation into line	2	
	For considering use of fiscal and monetary policy		5
	Budget balance		
	For noting overall convergence of budget deficits among the four countries,	1	
	... but also noting remaining differences	1	
	For explaining how fiscal policies (e.g. cutting government spending, raising taxes) can be used to harmonise budgets	2	
	Cost of policies aimed at reducing budget deficits	1	5
	<i>Thus, if the candidate considers one graph well they can earn [4 marks] out of [5 marks].</i>		

- (e) **Using the data and your own knowledge of economics, discuss the relevance of trading blocks in the context of a global economy.**

Points that could be made include:

- Growth of trade blocks seems to accompany globalization and therefore many have appeared in recent times. Trade blocks can facilitate or be barriers to globalization.
- Trade blocks cause **trade creation** and **trade diversion**:

Candidates who write about this might be expected to produce diagrams and link trade creation to:

- Increased market size and economies of scale
- FDI as MNCs get inside the Common External Tariff
- Progress towards greater economic integration
- More advantageous terms of trade though currency stability

Trade diversion might be linked to:

- Abandoning of old trade relationships with countries now outside the bloc, *e.g.*, former LDC colonies/primary producers
- Restriction of MNC activities
- Tension between trade blocs, WTO and other governments
- Distortions in global patterns of investment

These are not prescriptive points—candidates may well develop arguments based on local experience. Reward references to examples and the constructive use of the stimulus material.

Level 0	No valid discussion.	0
Level 1	Very few relevant issues recognised with little discussion or basic understanding.	1-2
Level 2	A few issues recognised with some attempt at discussion or just one issue well-developed.	3-4
Level 3	Issues well developed with some reference to the data and with sensible evaluation.	5-7

SECTION B

Marking Criteria, Section B

Use these guidelines as a general basis for awarding marks.

The candidate's answer should be placed in the band where the majority of descriptors correspond to the candidate's work.

See the mark grid for the range of marks available at each band.

Band 4A:

Excellent knowledge of the content of the HL syllabus.

Excellent expression, use of examples and critical approach.

Evidence of thorough understanding of major relevant issues, and accurate use of economic principles.

Where appropriate: a good appreciation of alternative points of view, and some higher order skills, such as analysis/evaluation.

Well organised, cogent, succinct, well informed.

Not necessarily a perfect answer, but as good as could reasonably be expected by a candidate at this level under these circumstances.

Band 4B:

Very good knowledge of the content of the HL syllabus.

Very good expression, use of examples, and critical approach.

Evidence of confident understanding of relevant issues and economic principles.

Where appropriate: some appreciation of alternative points of view, and/or some analysis, and/or some evaluation.

A clear and direct answer to the question.

Well argued with no major errors.

Band 3:

Good knowledge of the content of the HL syllabus.

Good expression and use of examples.

Evidence of clear understanding of relevant issues and economic principles; there may be some errors or confusions, but these are minor.

Ability to use economic models confidently, and/or apply economic concepts to answer the question.

Generally well organised and effectively communicated.

Some lapses in the logical argument may be present, but not too much to spoil the overall impression.

Band 2:

Satisfactory knowledge of the content of the HL syllabus.

Reasonable expression and use of examples.

A few issues recognised.

Some evidence of familiarity with basic economic models/principles, but there may be some confusion.

Some concepts may be understood, others misunderstood.

The organisation of material might be disjointed, and there might be a lack of lucidity/fluency, but the general message is communicated.

Relevant points might be mentioned, but not developed properly or explained clearly.

In the lower part of this band, some irrelevancies might be discussed at some length, and/or quite important material might be omitted, as long as some points of substance are discussed.

Answers with a number of relevant points which are presented in “note” or “list” form might reach the top of this band depending on the quality of the points made.

Band 1:

Weak knowledge of the content of the HL syllabus.

Poor expression and use of examples.

Issues discussed tend not to be central ones/central issues are misunderstood.

Minimal evidence of familiarity with basic economic models/principles; often an impression will be given of a use of general knowledge rather than a systematic training in Economics.

Essays not answering the question set will usually be in this band, as may severe cases of parrot-learning/pre-learned answers written regardless of the question/excessively short, note-like answers; but they may enter the band above depending on the extent of the irrelevancy and the quality of the answer.

Band 0:

Very weak or inadequate knowledge of the content of the HL syllabus.

Inadequate expression and use of examples.

Understanding of issues is not evident.

No evidence of any useful familiarity with economic models/principles.

Something of relevance might be mentioned, and receive some of the few marks available, but there are major points of confusion.

Poorly organised to the point of being incoherent.

MARKING GRID: IB ECONOMICS, MARKBANDS AND RANGES; PAPERS SL2, HL3 SECTION B (ESSAYS) Read the band descriptors (detailed marking criteria) before using this grid								
BRIEF BAND DESCRIPTOR (Also refer to detailed criteria)	BAND	FOR QUESTION/SUB-QUESTION						
		25	15	13	12	10	9	8
Excellent	4a	24-25	14-15	12-13	12	10	9	8
Very Good	4b	20-23	12-13	10-11	10-11	8-9	7-8	7
Good	3	15-19	9-11	8-9	7-9	6-7	5-6	5-6
Satisfactory/adequate	2	10-14	6-8	5-7	5-6	4-5	4	3-4
Weak	1	5-9	4-5	3-4	3-4	2-3	2-3	2
Very Weak	0	0-4	0-3	0-2	0-2	0-1	0-1	0-1

Section B Essays: Paper-Specific Guidance

The following comments are intended to provide extra guidance to Assistant Examiners, but they are not meant to be a “straitjacket”.

They are meant to indicate some of the main points which the question-setter hoped to elicit, and/or indicate sensible approaches; however, it is often possible for candidates to respond to a question in a way which is unanticipated and yet which contains valid economic arguments, so please keep an open mind.

THE GENERAL MARKING CRITERIA REMAIN THE MAIN BASIS FOR AWARDING MARKS.

Question 3

Discuss and evaluate the proposition that perfect competition is a more efficient market structure than monopoly.

[25 marks]

This question requires a candidate to give an accurate definition of both market structures and how the concept of efficiency applies to each.

Accurate definitions of allocative and technical (productive) efficiency should also be expected with better candidates referring to diagrams.

Arguments which support the proposition are:

- lower price
- allocative and productive efficiency
- output is maximised
- price equals marginal cost

Arguments which do not support the proposition are:

- economies of scale/natural monopoly
- research and development
- positive effects of price discrimination

Question 4

(a) What are the consequences of unemployment in an economy?

[10 marks]

Candidates may define unemployment. Credit should be given for examination of the different types of unemployment with brief mention of causes.

Consequences

A variety of approaches may be taken by candidates and the following may be considered by them.

- lower output and standard of living - this may be considered at both the individual and macro levels. Candidates may use PPC diagrams to illustrate.
- personal costs such as self-esteem, health, *etc.*
- social costs, such as disruption to family units, crime, *etc.*
- lost tax revenue for governments and higher expenditure by governments on welfare payments and the provision of basic support

In discussion, candidates should be rewarded for drawing on theory in their answer, such as labour market diagrams, AS / AD diagrams, the Phillips curve and PPC diagrams.

Reward candidates who distinguish between private and public costs in structuring their answer.

(b) Examine the strategies that may be used to reduce unemployment, referring to more developed countries and less developed countries in your answer.

[15 marks]

Candidates may examine strategies generally, with reference to the situation found in MDCs and LDCs. Alternately, candidates may choose to discuss the situation in MDCs and LDCs separately. Either approach is acceptable, with candidates being rewarded for recognising that the strategies used in MDCs are not necessarily appropriate for LDCs, and vice versa.

Discussion may include:

- the role of aid in creating employment
- the role of trade in creating employment
- structural adjustment policies designed to align labour skills with the needs of employers, such as retraining schemes, use of appropriate technology, government initiated projects designed to employ labour directly or to provide infrastructure that will create employment in the private sector
- labour market reforms designed to remove barriers to the free market for labour (such as removing minimum wage legislation or the abuse of power by unions and employer organisations)
- policies designed to stimulate the level of aggregate demand, such as the use of fiscal and monetary policy, or the redistribution of wealth and income

- regional policies
- distinction between underemployment and unemployment
- less scope for government intervention/welfare systems in LDCs.

Candidates should be rewarded for recognising the problems associated with the strategies suggested.

Question 5

- (a) **Explain the various factors that could cause a change in the terms of trade for a country.**

[10 marks]

Candidates should define “terms of trade”.

Factors that may be considered include:

- changes in international competitiveness
- inflation
- competitive advantage
- labour costs
- investments
- exchange rate movements
- protection / subsidies
- changes in global demand for and supply of commodities

- (b) **Discuss, with reference to less developed countries, the possible consequences of a deterioration in the terms of trade.**

[15 marks]

A variety of approaches may be expected. Deterioration should imply only negative consequences. A deterioration in terms of trade can be beneficial in certain circumstances. Discussions may include:

- (i) initial consequences
 - problem of having to export ever greater quantities of commodities to buy given quantities of imports
 - increased export volumes
 - decreased import spending
 - changes in volumes depend on price elasticities of demand for imports and exports
- (ii) longer term consequences
 - balance of payments consequences
 - debt and debt servicing
 - depreciation of exchange rates
 - IMF / world bank intervention / assistance
 - change in standard of living
 - change in social spending and infrastructure
 - the need for long term structural change

Reference to some real LDC examples is expected although not necessarily for all points made.

Candidates who rely on generalisations would not expect to score as highly as those who have made some reference to real examples.

Question 6

- (a) Using examples, explain the difference between economic growth and economic development.**

[10 marks]

Economic growth is only measured in terms of national output: this may be actual or potential.

Economic development is a measure of welfare. Measures usually include a lot more than simply economic growth, *i.e.* real GDP per head. Measures mentioned may be the HDI or the Human Suffering Index or any sensible related concepts such as poverty lines, measures of income distribution, absolute poverty, political and economic freedom (in the senses implied by Todaro and Sen and other writers).

Examples must be given in order to reach the higher mark bands, *e.g.* examples of composite indices and/or examples of countries with strong growth which may not be achieving development.

- (b) Is economic growth always a desirable policy objective for a government?**

[15 marks]

This is an open-ended question. Some may say that growth is not a good measure of welfare or development and will argue that growth without development is not a worthwhile thing.

The question could be answered in terms of the costs and benefits of economic growth. Points could include sustainable development, damage to the environment *etc.*

Others will argue that if there is economic growth, there is almost certainly going to be a “trickle down” effect at some point, however slowly.

Yet again, some may take the approach of comparing economic growth as a policy objective to other main objectives, such as low inflation, low unemployment, balance of payments, or equity.

Any well argued, economic response should be fully rewarded.
